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STATE OF MONTANA
MONTANA HISTORICAL SOCIETY

REPORT ON AUDIT

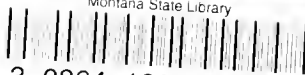
Conducted under Contract by
Hanto, Berres & Romo, CPA's

Fiscal Year Ended June 30, 1978



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M. Russell
1911

"Free Trapper"

Oil painting by C. M. Russell
on display at the
Montana Historical Society
Helena, Montana

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122



MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

September 1978

DEPUTY LEGISLATIVE AUDITORS:
JOSEPH J. CALNAN
ADMINISTRATION AND
PROGRAM AUDITS

ELLEN FEAVER
FINANCIAL-COMPLIANCE AND
CONTRACTED AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Montana Historical
Society for the year ended June 30, 1978.

The audit was conducted by Hanto, Berres, and Romo, CPA's, under a
contract between the firm and our office. The comments and
recommendations contained in this report represent the views of the firm
and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in
the back of the audit report.

Respectfully submitted,

A handwritten signature in cursive script, reading "Morris L. Brusett".

Morris L. Brusett, C.P.A.
Legislative Auditor

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

MONTANA HISTORICAL SOCIETY BOARD OF TRUSTEES

	<u>Term Expires</u>
Mrs. A. C. MacDonald	July 1, 1979
Randall Swanberg	July 1, 1979
Wilbur P. Werner	July 1, 1979
Mrs. Louis W. Hagener	July 1, 1980
Henry S. Ruegamer	July 1, 1980
James H. Vanderbeck	July 1, 1980
Anthony Dalich	July 1, 1981
Mrs. Walter Marshall	July 1, 1981
Joseph E. Reber	July 1, 1981
Mrs. Charles A. Bovey	July 1, 1982
Michael P. Malone	July 1, 1982
Eric J. Myhre	July 1, 1982
Manson H. Bailey, Jr.	July 1, 1983
E. E. MacGilvra	July 1, 1983
Dee C. Taylor	July 1, 1983

MONTANA HISTORICAL SOCIETY

Ken Korte

Director

Dennis Sheehy

Business Manager

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a reference to the supporting comments. The full reply of the Montana Historical Society is included in the back of this report.

	<u>Page</u>
Develop procedures to properly account for enterprise funds.	6
<u>Agency Reply:</u> Concur with comments. See page 57.	
Discontinue preparation of sales invoices and abstracts.	7
<u>Agency Reply:</u> Concur with comments. See page 57.	
Discontinue maintaining perpetual inventory records and take a physical inventory at the end of each fiscal year.	9
<u>Agency Reply:</u> Concur. See page 57.	
Review mail order sales and discontinue unprofitable operations.	10
<u>Agency Reply:</u> Concur. See page 57.	
Centralize the responsibility for ordering and pricing decisions.	10
<u>Agency Reply:</u> Concur. See page 57.	
Compute the liability for deferred subscription income and report this information on the financial statements.	11
<u>Agency Reply:</u> Concur. See page 57.	
Actively solicit advertising, update the advertising rate card, and review the standards for acceptable advertising.	13
<u>Agency Reply:</u> Concur. See page 58.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Seek legal assistance to determine the status of copyright protection over reproductions of art works and develop procedures to collect all royalties and reproduction fees.	15
<u>Agency Reply:</u> Concur with comments. See page 58.	
Centralize the initial receipt of cash.	16
<u>Agency Reply:</u> Concur. See page 58.	
Provide for a separation of duties for employees handling cash.	16
<u>Agency Reply:</u> Concur. See page 58.	
Restrictively endorse checks upon receipt and promptly deposit receipts.	17
<u>Agency Reply:</u> Concur. See page 58.	
Properly utilize the cash register to provide control over cash receipts.	18
<u>Agency Reply:</u> Concur. See page 58.	
Centralize the accounts receivable and billing functions.	19
<u>Agency Reply:</u> Concur. See page 58.	
Require credit checks before permitting customers to charge merchandise and develop procedures to assure prompt collection of accounts.	20
<u>Agency Reply:</u> Concur. See page 59.	
Utilize a suspense account.	20
<u>Agency Reply:</u> Concur. See page 59.	
Utilize the Statewide Budgeting and Accounting System for processing accounts receivable.	21
<u>Agency Reply:</u> Concur. See page 59.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Discontinue preferential treatment of employee accounts.	21
<u>Agency Reply:</u> Concur. See page 59.	
Obtain authorization for all nontreasury cash accounts, close the bank account at Libby, place the cash accounts on an imprest basis and record the balances on the general ledger, and reconcile the accounts each month.	22
<u>Agency Reply:</u> Concur. See page 59.	
Promptly replenish the imprest cash fund and discontinue using cash receipts to pay expenses.	23
<u>Agency Reply:</u> Concur. See page 59.	
Record investments on the accounting records and deliver the donated stock certificate to the State Treasurer.	24
<u>Agency Reply:</u> Concur. See page 60.	
Require employees to submit travel expense vouchers and discontinue the practice of granting advances to terminated employees.	25
<u>Agency Reply:</u> Concur with comments. See page 60.	
Review general ledgers on a periodic basis and correct errors.	26
<u>Agency Reply:</u> Concur. See page 60.	
Comply with the provisions of legislative appropriations.	26
<u>Agency Reply:</u> Concur. See page 60.	
Properly code expenditures.	27
<u>Agency Reply:</u> Concur. See page 60.	
Comply with the provision of endowment agreements.	27
<u>Agency Reply:</u> Concur. See page 60.	
Discontinue recording receipts as expenditure abatements.	28
<u>Agency Reply:</u> Concur. See page 61.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Seek legal assistance to determine the status of workers hired under contract.	28
<u>Agency Reply:</u> Concur. See page 61	
Purchase supplies in quantities sufficient to meet current year's needs.	29
<u>Agency Reply:</u> Concur. See page 61.	
Request reimbursements based upon state accounting records.	31
<u>Agency Reply:</u> Concur with reservations. See page 61.	
Report all sales of merchandise.	31
<u>Agency Reply:</u> Concur. See page 61.	
Record revenue when earned in the Libby Dam account.	32
<u>Agency Reply:</u> Concur. See page 61.	
Complete cataloging of acquisitions in the library, museum and archives.	33
<u>Agency Reply:</u> Concur with comments. See page 62.	
Increase the dollar coverage of its fine arts insurance policy.	34
<u>Agency Reply:</u> Concur. See page 62.	
Allocate insurance coverage based upon risk.	34
<u>Agency Reply:</u> Concur. See page 62.	
Review the adequacy of insurance coverage for the library and archives program.	34
<u>Agency Reply:</u> Concur with comments. See page 62.	
Develop procedures for deleting items disposed of from the insurance inventory.	35
<u>Agency Reply:</u> Concur. See page 62.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Develop a policy manual that sets forth responsibilities and procedures for financial transactions.	35
<u>Agency Reply:</u> Concur. See page 62.	
Develop procedures to improve accountability over plant, property and equipment.	36
<u>Agency Reply:</u> Do not concur. See page 62.	
Maintain adequate documentation and files on the historic preservation program.	38
<u>Agency Reply:</u> Concur. See page 63.	
Hire the required staff for the historic preservation program, if the program is to be continued.	38
<u>Agency Reply:</u> Concur. See page 63.	
Use in-kind or allocated matching funds to the extent possible in the historic preservation program.	39
<u>Agency Reply:</u> Concur. See page 63.	
Determine if a conflict of interest exists in the historic preservation program.	40
<u>Agency Reply:</u> Concur. See page 63.	
Develop and document a program to inform cities and counties of the availability of historic preservation grant funds.	41
<u>Agency Reply:</u> Concur. See page 63.	
Develop procedures requiring consultants to comply with contract terms and maintain current contracts with consultants.	42
<u>Agency Reply:</u> Concur. See page 64.	
Utilize the state computer accounting system for grant accounting.	43
<u>Agency Reply:</u> Concur. See page 64.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
Promptly process requests for reimbursements.	43
<u>Agency Reply:</u> Concur. See page 64.	
Perform an audit of subgrantee requests for reimbursement and that these audits be documented.	43
<u>Agency Reply:</u> Concur. See page 64.	
Submit completion reports for all completed projects.	44
<u>Agency Reply:</u> Concur. See page 64.	
Maintain continued correspondence with subgrantees.	44
<u>Agency Reply:</u> Concur. See page 64.	
Inform subgrantees of all grant requirements.	45
<u>Agency Reply:</u> Concur. See page 64.	

October 20, 1978

The Legislative Audit Committee
of the Montana State Legislature

We have examined the balance sheets of the Montana Historical Society as of June 30, 1978 and the related statements of operations listed in the table of contents of this report for the year then ended. Except as explained in the following paragraphs, our examination was made in accordance with generally accepted auditing standards and with compliance standards set forth in the "Audit Guide for National Park Service Historic Preservation Grant Program" issued by the Office of Audit and Investigation, U. S. Department of the Interior. Our examination included tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The condition of the accounting records relating to fixed assets and equipment was such that we were unable to perform certain auditing tests and procedures which we deemed necessary to comply with generally accepted auditing standards. Historical costs for land, buildings and equipment are not available. Consequently, a statement of general fixed assets required by generally accepted accounting principles is not included in the financial statements.

Accounts receivable--receipts of \$15,236 in the revolving fund are overstated by \$6,845 representing a merchandise transfer to the Libby Dam project. Deferred accounts receivable with a credit balance of \$1,650 on the balance sheet of the federal and private revenue fund--special projects represents an error. The balance should be zero. Accounts receivable--expenditure abatements with a balance of \$1,407 on the balance sheet of the general fund represents an error. The balance should be zero. Expense advances--employees with a balance of \$709 on the balance sheet of the general fund and \$170 on the balance sheet of the federal and private revenue fund--Libby Dam represent errors. The balances should be zero.

Other assets of \$950 presented on the balance sheet of the agency fund represents a purchase of art for the society's collection. This balance should be included in the statement of general fixed assets.

Inventory with an undetermined value is not included as an asset on the balance sheet for the revolving fund. The Montana Historical Society valued this inventory at \$108,886 on June 30, 1978. Because a physical inventory was not taken at June 30, 1978 and because of inadequacies in the records we were unable to determine or test the stated value of this inventory. If the financial statements were presented in conformity with generally accepted accounting principles, any change in inventory during the year would have affected net income of the merchandising operation. The change in inventory and associated effect on net income cannot be determined.

Investments donated in 1971 and 1974 with a donated value in excess of \$43,000 are not included as assets on the balance sheet for federal and private revenue fund--donations.

Accounts receivable of \$10,876 representing the amount due from the grantor on a cost reimbursable grant are not presented as an asset on the balance sheet of the federal and private revenue fund--Libby Dam.

The liability of \$17,884 on the balance sheet of the federal and private revenue fund--Libby Dam resulted from a September 1976 coding error. The balance should be zero.

Liabilities of approximately \$52,300 representing subscription commitments for Montana, The Magazine of Western History are not included in the balance sheet for the revolving fund. It was not practical to compute the subscription commitment at June 30, 1977. The effect on income due to the change in the amount of the balance, if any, cannot be determined.

The liability for final payment of the C. M. Russell painting, "When the Land Belonged to God," of \$218,000 in the earmarked revenue fund, \$14,750 in the federal and private revenue fund--donations, and \$11,000 in the agency fund is not presented on the balance sheets of those funds. Payments on contracts during the year of \$77,000 from the earmarked revenue account were charged to current year expense. Since contract liability was established in a prior fiscal year, expenditures are overstated by \$77,000 in the museum program on the statement of expenditures by object and in the earmarked revenue fund on the statement of appropriations compared to expenditures.

Liabilities of \$3,207 representing customer deposits and balances due to merchandise consignors are not included in the balance sheet for the agency fund. Liabilities of \$14,413 representing payments due to subgrantees are not included in the balance sheet for the federal and private grant clearance fund.

Accrued support expenditures are understated by \$1,500 in the general fund and \$469 in the federal and private revenue fund--Libby Dam.

Expenditures for goods for resale in the magazine and merchandise program on the statement of expenditures by object are overstated by \$19,000, due to coding errors made during the year. These expenditures should have been coded to operating expense categories. It was not practical to determine the exact overstatement or the correct distribution of these expenditures.

The Montana Historical Society plays a substantial role in the selection of subgrantees and review of payments under the historic preservation program. Federal revenue and associated expenditures to state and local governments of \$104,732 was not reported on the statement of revenue and income, the statement of expenditures compared to appropriations or the statement of expenditures by object as a result of expenditure transactions debited to revenue.

Revenue is understated by \$16,065 in the federal and private revenue fund--donations, \$5,281 in the federal and private revenue fund--special projects, and \$5,025 in the agency fund on the statement of revenue and income as a result of expenditure transactions charged directly to revenue accounts. Expenditures are similarly understated on the statement of expenditures compared to appropriations and the statement of expenditures by object. Revenue in the federal and private revenue fund--Libby Dam is understated by \$8,844 as a result of \$3,897 in expenditure transactions made directly to revenue accounts and \$4,947 representing the increase in unrecorded accounts receivable between July 1, 1977 and June 30, 1978.

At June 30, 1978, the Montana Historical Society placed its entire accounts receivable balance on the balance sheet for the revolving fund with a corresponding offset to revenue. This transaction overstated revenue on the statement of revenue and income for the fiscal year by approximately \$15,000, although the exact amount is not determinable since we were not able to determine the accounts receivable balance at June 30, 1977 to determine the net change in accounts receivable.

Generally accepted accounting principles prescribe specific accounting treatment for enterprise funds, including full accrual of income, recording of assets and associated depreciation, and recording of indirect and overhead costs. The accounting records do not accumulate this information. Consequently, the statement of operations for enterprise funds, relating to the merchandising and magazine programs at the Montana Historical Society, which is required by generally accepted accounting principles, is not presented.

In our opinion, except for the matters discussed in the preceding paragraphs, the balance sheets for the general fund, federal and private revenue fund--historic sites, and insurance clearance fund; the statement of revenue and income for the general fund, earmarked revenue fund, federal and private revenue fund--historic sites, insurance clearance fund and agency fund; statement of expenditures compared to appropriations for

the general fund, federal and private revenue fund--historic sites, insurance clearance fund, and agency fund; and the statement of changes in fund balances for the general fund, federal and private revenue fund--historic sites, and insurance clearance fund present fairly the financial position of the Montana Historical Society at June 30, 1978 and the results of its operations and changes in financial position for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Because of matters discussed in the preceding paragraphs relating to changes in inventory and changes in liability for deferred subscriptions, and the effect of those matters on the financial statements, if any, we do not express an opinion on the statement of revenue and income, statement of appropriations compared to expenditures and statement of changes in fund balances of the revolving fund of the Montana Historical Society for the fiscal year ended June 30, 1978.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the balance sheets of the earmarked revenue fund, federal and private revenue fund--donations, federal and private revenue fund--special projects, federal and private revenue fund--Libby Dam, the grant clearance fund, the revolving fund and the agency fund; the statement of revenue and income for the federal and private revenue fund--donations, federal and private revenue fund--special projects, federal and private revenue fund--Libby Dam, and the grant clearance fund; the statement of appropriations compared to expenditures for the earmarked revenue funds, federal and private revenue fund--donations, federal and private revenue fund--special projects, federal and private revenue fund--Libby Dam, and the grant clearance fund; the statement of changes in fund balances for the earmarked revenue fund, the federal and private revenue fund--donations, the federal and private revenue fund--special projects, the federal and private revenue fund--Libby Dam, grant clearance fund and agency fund do not present fairly, in conformity with generally accepted accounting principles, the financial position, results of operations or changes in fund balances of the Montana Historical Society for the year ended June 30, 1978.

The accompanying statement of expenditures by object for the fiscal year ended June 30, 1978 is not necessary for a fair presentation of the financial statements but is presented as supplemental information. This information has been subjected to the tests and other auditing procedures applied in our examination of the financial statements. In our opinion, because of the matters described above, the statement is not fairly stated in all material respects in relation to the financial statements taken as a whole.

Hanto, Berres & Romo

COMMENTS

INTRODUCTION

The primary purpose of our examination of the financial statements of the various funds and account groups of the Montana Historical Society for the fiscal year ended June 30, 1978 was to enable us to form an opinion on the financial position of the various funds and account groups of the Montana Historical Society at June 30, 1978 and the results of operations of those funds for the year then ended.

We reviewed and tested the Montana Historical Society system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of such an evaluation is to establish a basis for reliance upon the agency's records and procedures to determine the nature, timing and extent of auditing procedures necessary for expressing an opinion on the financial statements.

As discussed in the text of this report, we found certain material weaknesses in internal accounting control at the Montana Historical Society. A material weakness means a condition in which we believe that prescribed procedures or the degree of compliance with them does not provide reasonable assurance that errors or irregularities in amounts that would be material in the financial statements being audited would be prevented or detected within a timely period by employees in the normal course of performing their assigned functions.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability

of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of internal controls at the Montana Historical Society for the year ended June 30, 1978 would not necessarily disclose all weaknesses in the system; however, such study did disclose the following condition, that we believe merit attention.

This report, by its nature, is critical in that it contains our comments and recommendations on deficiencies noted in the course of our examination. It does not include our observations on the strong features of the Montana Historical Society system of internal controls.

GENERAL

The Montana Historical Society was established in 1865 by the Territorial Legislature. The law authorizing the society states that it is "...an agency of state government for the use, learning, culture and enjoyment of the citizens of the state and for the acquisition, preservation and protection of historical records, art archival and museum objects, historical places, sites and monuments and the custody, maintenance and operation of the historical library, museums, art galleries, and historical places, sites and monuments."

The Montana Historical Society is under the general supervision of a fifteen member Board of Trustees who are appointed by the Governor with the consent of the State Senate. Day-to-day operations are the responsibility of the director. The society operates seven major programs: administration, library, museum, magazine, merchandise, historic sites, and archives.

The Montana Historical Society is headquartered in the Veterans-Pioneer Memorial Building. The building also houses the offices of the Sons and Daughters of the Pioneers and numerous veterans organizations. These organizations have office space on the third floor of the building.

PROFIT AND LOSS INFORMATION

Enterprise funds operate like a commercial business. Goods and services are sold to the public and the fund must generate enough revenue to pay all its own expenses. The historical society revolving fund is established to account for two enterprise activities, the merchandising program and magazine sales.

Specific accounting requirements are prescribed for enterprise

funds. These requirements include:

Full Accrual Accounting - Revenues earned but not received should be recorded. Changes in inventory should be reflected in income.

Depreciation - Fixed assets used in the production of income should be recorded in financial statements and depreciated.

Accounting for Overhead and Indirect Costs - Utilities, supervisory salaries and space rental should be recorded in the financial records.

Financial Statements - Enterprise funds require a statement of operations and an analysis of changes in retained earnings.

The agency's financial statements, prepared from the Statewide Budgeting and Accounting System, do not meet these requirements. In some cases, the Statewide Budgeting and Accounting System does not have the capability of providing statements in the required format. Consequently, the financial statements of the revolving account are not in accordance with generally accepted accounting principles.

Of greater importance is the problem that these statements generate very little useful information. The statement of changes in fund balances shows a negative fund balance of \$33,130 at June 30, 1977 and a negative fund balance of \$13,862 at year end. The fund had more liabilities than assets at both the beginning and end of the year. At year end, the statement indicates that the fund had improved its financial position by \$19,268. However, the information in the statements cannot be relied upon since inventory, a key element of profit determination, is not included in this information. This apparently improved

financial condition may be the result of a reduction in inventory. Records at the agency do indicate a reduction in inventory of approximately \$22,000. As discussed later in this report, the agency did not take a physical inventory at year end and the perpetual records cannot be relied upon to produce accurate information. We cannot determine if any reduction of inventory actually took place.

Until June 30, 1978, the agency did not record sales on account as revenue until collections were made. At June 30, 1978, the conversion to the accrual method of recording revenue was done in error and revenue for the fiscal year 1977-78 is overstated by approximately \$15,000. This amount represents prior year revenue. This problem is discussed further in a following report section.

Certain expenses and revenue which are recorded in the revolving fund appear to belong in other funds. For example, royalties are placed in the merchandise revolving account, although royalties are not related to the merchandising program. Expenses, such as a museum brochure, were paid by the merchandising department rather than the museum.

Magazine subscriptions are currently recorded on the cash basis, even though many subscriptions represent income that will not be earned until future years. This presents a potential for distortion of revenue from magazine subscriptions.

Each of these matters, plus others which affect income determination, are discussed in depth in other sections of this report. The effect of these matters is that the financial statements cannot be relied upon to determine the results of activity in the revolving fund.

Historical society managers, the legislature and other interested parties cannot even determine whether the operation resulted in a profit or loss for the year. Realistic merchandising decisions and sound management are not possible without financial information upon which to base decisions.

The agency should begin a major change in financial reporting procedures and gather financial data with a format and content that meets generally accepted accounting principles. Specific recommendations concerning inventory and full accrual accounting are included in the text of this report.

Recommendation

We recommend that the society develop procedures to properly account for enterprise funds.

REVENUE

The Montana Historical Society generates revenue to partially finance its operations from several sources. The largest of these is the merchandising department with over \$290,000 in sales during the fiscal year. Magazine subscriptions and advertising generated \$111,344. Additional revenue is earned from the sale of reprints of photographs in the archives and copying charges at the library. The Libby Dam project, a cost reimbursable grant, received \$63,225 from the Corps of Engineers.

We found significant problems in the processing and recording of this revenue. Internal controls were weak or nonexistent. In addition, we found managerial and organizational problems which we believe require correction.

MERCHANDISING OPERATIONS

The merchandising program employs four and one-half full time equivalent employees during the winter months. During the peak sales months of July, August and September, the program employs an additional two part time sales personnel. Sales are made by mail, both retail and wholesale, and over the counter at the historical society building.

Sales Transactions

Most sales involve two steps; ringing the amount on a cash register and preparing a sales invoice. The sales invoices are later used to prepare a detailed summary of the day's sales. This summary, referred to as an abstract, requires a minimum of one hour to prepare and after a busy day the abstract can require a full day to prepare.

The preparation of sales invoices, listing each item sold, requires additional time, slows down the sales transaction, and necessitates additional sales personnel during the peak selling season. Preparation of abstracts involves more time. Instead of stocking shelves and assisting customers, clerks often spend a significant portion of their shift preparing the abstract. We found that the abstract generates little management information and that required information concerning sales could be generated using only a cash register. Certain limited edition and high dollar items must be separately invoiced. However, we believe that staff time could be used much more efficiently if unnecessary recordkeeping were discontinued.

Recommendation

We recommend that the society discontinue preparation of sales invoices and abstracts.

Perpetual Inventory Records

Sales invoices are also used to maintain perpetual inventory records. These records were established in 1976. Although the employee involved has conscientiously maintained these records in accordance with business office instructions, we found that the records are not adequate for developing inventory cost figures, nor are they used to generate useful management information. Some of the problems found include:

- Over 20% of the inventory is still not maintained on the perpetual records. This includes many small dollar items. Since a physical inventory was not taken at fiscal year end, the records cannot be used to prepare financial statements.
- Cost figures for many older items and those printed by the society are estimates. Actual cost figures are not available.
- The records generate no reports to management. One employee works full time to maintain the records and it appears that an additional employee might be required to prepare management information from the records.
- Significant adjustments to perpetual records were made during the year, indicating that prior physical inventories were not accurate.

The primary purposes of inventory records are to provide control over inventory, provide information for management decisions, and provide inventory cost information for the preparation of profit and loss statements.

The present inventory records do provide some control over inventory. When compared to the cost of these controls, we do not believe perpetual inventory records are justified. Except for limited edition items, the bulk of the inventory consists of books and prints with values ranging from \$.75 to \$15.00. This type of merchandise does

not generally warrant a perpetual inventory system. Some of the controls provided by the perpetual inventory system can be provided by alternate methods. The historical society should adopt a forced inventory and ensure that a complete physical inventory is taken each year.

Recommendation

We recommend that the society:

1. Discontinue maintaining perpetual inventory records.
2. Take a physical inventory at the end of each fiscal year.

Mail Order Sales

The Montana Historical Society acts as a wholesale supplier of books and prints to small retail establishments and other dealers. We found that this activity consumes a considerable portion of staff time and profit margins are low. The society orders books in sufficient quantity to receive a 40% discount. For example, a book which retails for \$10.00 may cost the society \$6.00. Retail establishments and other dealers may purchase from the society for a 25% discount from retail, or \$7.50. These sales are usually on credit and require business office time to bill and collect.

These sales may not contribute a sufficient gross margin to justify continuing them. The scope of our review did not permit a detailed analysis. The society should perform such an analysis and discontinue these sales if they are not profitable.

We found two dealers who purchase merchandise from the society each spring, return unsold merchandise in the fall, and make no payment until

unsold merchandise is returned. Unused merchandise is sometimes shopworn and must be sold at a discount. The society's profit margin with these two dealers is seriously eroded. The society should discontinue these activities.

Recommendation

We recommend that the society review mail order sales and discontinue unprofitable operations.

Pricing and Ordering

We found that responsibility for pricing and ordering was fragmented. The merchandising manager has responsibility for these matters, but we found purchases made by the business office, archives and, in prior years, by the Board of Trustees. The merchandising manager was not informed of these actions until after the fact. Several departments are also actively involved in pricing merchandise.

These responsibilities should be centralized with the merchandising manager. The merchandising department should be judged by its profitability. Currently, this is not practical since many important decisions are made outside the merchandising department.

Recommendation

We recommend that the society centralize the responsibility for ordering and pricing decisions.

MAGAZINE OPERATIONS

The Montana Historical Society publishes Montana, the Magazine of Western History. This quarterly publication has approximately 9500 subscribers, plus single issue sales through the society and dealers. The magazine employs four and a half full time equivalent employees. Authors of articles published receive a small payment. The staff edits

all manuscripts, adds appropriate photographs and illustrations and prepares camera ready pages. The staff is also responsible for all subscriptions, renewals and mailings. We found several matters dealing with the financial affairs of the magazine which should be corrected.

Profit and Loss

Financial records indicate that the magazine incurred a substantial loss during the fiscal year. The actual loss is not determinable, since we were not able to compute deferred subscription revenue at June 30, 1977. At June 30, 1978, deferred subscription revenue totaled approximately \$52,300. This represents money received in advance for subscriptions and a liability for future delivery of the magazine. The change in this liability each year directly affects income. These amounts have not been included in the financial records, thereby significantly distorting the liabilities on the balance sheet and reducing the value of income statement information. The agency should compute the liability for deferred subscription income each fiscal year and adjust the financial records to reflect this information.

Recommendation

We recommend that the society compute the liability for deferred subscription income and report this information on the financial statements.

Subscription Price

The magazine is published quarterly according to high quality printing standards. Printing costs alone for each copy of the magazine vary between \$1.10 and \$1.25. Postage and packaging costs approximately \$.09 per copy. In addition, subscribers receive a quarterly newsletter costing \$.05 each to print and \$.02 each to mail. Total direct costs

of printing and mailing for each annual subscription are approximately \$5.50.

The subscription price of \$10.00 per year leaves approximately \$4.50 from each subscription to pay for materials, supplies, salary and other overhead. At present subscriber levels the gross profit margin is not sufficient to cover overhead. It is not possible to determine the exact loss, but it appears that the fiscal year 1977-78 loss exceeded \$25,000. In past years, losses have been offset by profits in the merchandising department.

The magazine faces a serious profitability problem. A large increase in the number of subscribers would solve this problem; however, this does not seem probable. A large increase in subscription price would generate additional revenue. A price increase could reduce the number of subscribers, partially cancelling the benefits of the price increase. As discussed below, advertising revenue could be increased significantly. This increased revenue will probably be insufficient to cover the annual operating losses.

These problems have no easy solution. We believe additional study is required to find a successful mix of cost cutting and price raises to reduce the losses. Because additional study is required, we do not make recommendations regarding subscription prices.

Advertising

The magazine solicits advertising which is considered appropriate to the content of the magazine. Ads for items such as liquor and novelties are not accepted. Also, patron advertisers pay \$200 annually for recognition in each magazine. Last year advertising revenue was

\$5300 with over half this amount from patron sponsors.

The magazine does not employ a salesperson, consequently there has been no effort to solicit advertising. Advertising that is ordered is billed, based upon a rate card that was prepared in 1970. We also noted frequent exceptions to the rate card, where rates charged to certain advertisers were discounted significantly.

Significant additional revenue could be earned by the agency if advertising revenue was actively solicited. At a minimum, advertising agencies and potential advertisers should be contacted by mail with a copy of the magazine and a rate card. The rate card should also be updated to reflect increasing production costs.

The staff of the magazine should also review the policy of refusing to publish liquor and novelty ads. This policy may not be warranted in view of the magazine's financial situation. A thorough review of this policy might result in additional potential advertisers without compromising the quality standards of the magazine.

Recommendation

We recommend that the society:

1. Actively solicit advertising.
2. Update the advertising rate card.
3. Review the standards for acceptable advertising.

ROYALTIES

The Montana Historical Society does not have control over royalties. We found that only one licensing agreement was in force for the entire year. It expired August 2, 1978 and had not been renewed. One other royalty agreement expired in April 1978 and has not been renewed. One

company markets four Russell prints owned by the Montana Historical Society. During the fiscal year 1977-78, the company sold over \$3,000 in reproductions of these prints to the society. This company has not paid any royalties nor could we locate a licensing agreement. Officials of the historical society initiated correspondence during the year with this company in an attempt to determine the nature of any agreements.

The Board of Trustee minutes indicate that an agreement was approved with another company in April 1974 for five year reproduction rights. Royalties were set at \$500 ~~per year~~ and 5,000 prints of any painting reproduced. We found no payment by the company during the last two years nor could we locate the original agreement.

Copyright law is highly complex and should be interpreted only by an attorney. The Montana Historical Society should immediately seek legal assistance in evaluating the copyright protection of its art collection. It appears that some works may have entered the public domain and are no longer eligible for copyright protection. Reproduction rights on some paintings are protected by copyright. In at least one case, the reproductions do not contain words or symbols to indicate that the reproduction is protected by copyright. It is our understanding that this can jeopardize the copyright protection.

Once the agency determines the status of its copyright protection, it should ensure that current agreements are in force with each company preparing reproductions. This may result in considerably increased royalties.

We also found that companies have reproduced paintings owned by the society without the society's knowledge or permission. In one

case, a book publishing company obtained transparencies of C. M. Russell prints for publication in a western art book. The company also published a 1979 calendar containing reproductions of four paintings owned by the Montana Historical Society. Agency officials were not aware of this reproduction since the calendar was not marketed through the society. A second publishing company markets a calendar through the historical society containing reproductions of some of the same paintings. The society receives a five percent royalty on all sales of this calendar.

The society recently acquired the original of the C. M. Russell painting, "When the Land Belonged to God." It is not clear whether the 250 canvas limited edition reproductions are covered under existing copyright agreements. The reproductions sell for \$300 and the agency might face a significant liability should additional reproductions be sold by others at a lesser price.

Recommendation

We recommend that the society:

1. Seek legal assistance to determine the status of copyright protection over reproductions of art works.
2. Develop procedures to collect all royalties and reproduction fees.

CONTROLS OVER CASH

We found controls over cash receipts inadequate. We found this problem to be so severe as to require a detailed commentary with specific recommendations. Full implementation of these recommendations should significantly improve controls.

Initial Receipt

The initial receipt of cash is not centralized. Cash and checks are distributed to various departments for processing. Eventually the money is returned to the business office for deposit. We found that significant delays occurred before these receipts were returned to the business office for deposit. We believe that the mail should be opened in a central location, cash and checks listed, and delivered to the business office for preparation of a deposit. The initial listing of cash should be compared to the eventual deposit.

Recommendation

We recommend that the society centralize the initial receipt of cash.

Separation of Duties

Employees with responsibility for preparation of cash receipts also post and maintain accounts receivable records. Sales clerks reconcile their own daily cash receipts with the cash register tapes. These duties are not compatible, since it provides no assurance that all money received is deposited.

The Montana Administrative Manual provides guidance as to proper separation of duties where two, three, and four employees are involved. This largely involves separating the custody and recording of receipts. The agency should review this manual and allocate duties to provide for proper separation.

Recommendation

We recommend that the society provide for a separation of duties for employees handling cash.

Deposits and Endorsements

The employees handling cash at the agency do not restrictively endorse checks until a deposit is prepared. Deposits are not made in a timely manner. We found checks and currency held by the agency for over two weeks before a deposit was prepared. Cash register deposits were usually delayed two days before deposit, with some taking as long as a week. We found thousands of dollars in cash and currency stored in various locations that had been received from two days to two weeks before deposit. This practice significantly increases the risk of theft or misuse.

Recommendation

We recommend that the society:

1. Restrictively endorse checks upon receipt.
2. Promptly deposit receipts.

Cash Register Operation

Cash registers, when properly used, can provide assurance that all sales are reported and that all revenue is collected. The register at the Montana Historical Society is not properly used to provide adequate control:

- The back of the register is blocked by a display. Customers cannot view the amounts rung.
- Sales clerks have keys to the registers and may read accumulated totals during a shift.
- Not all sales are rung. For sales of certain special items a sales ticket is prepared but the amount is not rung. Audio-phone sales, amounting to over \$6,000 during the year, are placed in a separate cash box rather than being rung on the register.

-- Sales clerks clear the register at the end of their shift and reconcile actual cash with the totals.

-- Over and short accounts were not maintained.

Recommendation

We recommend that the society properly utilize the cash register to provide control over cash receipts.

ACCOUNTS RECEIVABLE

We found significant problems in the processing of accounts receivable. As discussed in a preceding report section, cash receipt functions should be centralized. The agency should also centralize the billing and accounts receivable function.

We found that the merchandise, magazine, archives and library programs provide goods or services creating accounts receivable from customers. The archives program provides reproductions of photographs to the public for a fee. The library charges for copies of documents. During the year, these departments provided the services and sent a bill to the customer. Subsequent bills were never sent since the departments believed that the business office assumed collection responsibilities. Business office employees believed that the departments were responsible for collection. We found that some customers had made no payments in over a year and had not received bills. We also found approximately \$500 in receivables not recorded on the accounting records. Some of these accounts were over six months old.

We believe that the agency should centralize the accounts receivable and billings functions. This would ensure that all billings for goods and services are recorded as accounts receivable and provide for uniform collection procedures.

Recommendation

We recommend that the society centralize the accounts receivable and billing functions.

Collection of Delinquent Accounts

The revolving fund shows an accounts receivable balance of \$15,236. Included in this balance is inventory transferred to the Libby Dam project. This does not represent an actual receivable and if removed results in an accounts receivable balance of \$8,392. We found that one-third of this balance is over 90 days old and that one-fifth of the balance is over six months old.

Credit checks were not made on customers charging merchandise. Customers who are delinquent in payment receive only a monthly billing. Additional correspondence or collection efforts are frequently not begun until the account is delinquent for six months. Delinquent accounts are not promptly turned over to the Department of Revenue for collection. Between April and October 1978, the agency did not refer any accounts to the Department of Revenue, even though some accounts were delinquent over one year. Of the accounts turned over to the Department of Revenue, many were not collectible. During the last two years, the agency has turned over accounts totaling \$3,457 to the department which remain uncollected.

The historical society should perform credit checks before granting credit. Although this is the agency policy, we found no evidence of credit checks in the past three years. The agency should also develop procedures to assure prompt collection. A second bill should notify customers that an account is delinquent; a third bill should require

immediate payment or the account will be subject to collection procedures. Each month of delay in instituting these procedures makes eventual collection more difficult.

Recommendation

We recommend that the society:

1. Require credit checks before permitting customers to charge merchandise.
2. Develop procedures to assure prompt collection of accounts.

Suspense Account

Customers are requested to return a copy of their invoice with a payment. If this is not done, the agency staff is not always able to determine which account should receive credit for payment. When this happens the agency does not deposit the check. We found checks up to six months old which had not been deposited.

The agency should promptly deposit all cash and checks received. If it cannot be determined to which account a receipt should be posted, the agency should establish a suspense account. This cash account and related subsidiary record allows proper safeguarding of the cash while a determination is made as to the proper posting.

Recommendation

We recommend that the society utilize a suspense account.

Deferred Accounts Receivable

Until June 30, 1978, the agency recorded accounts receivable in its computer records as deferred accounts receivable. This was an incorrect posting, since it does not recognize revenue until collection is made. On June 30, 1978, the agency transferred these receivables to

the correct account and credited revenue by \$15,236. This transaction overstated revenue for fiscal year 1977-78 by approximately \$15,000. Since we were not able to determine accounts receivable at June 30, 1977, the exact amount of overstatement cannot be determined.

The agency presently uses journal vouchers to reflect the changes in accounts receivable each month. Since the Statewide Budgeting and Accounting System includes procedures and forms for billing and collections, this results in a duplication of effort. It also effectively removes controls to assure that all billings result in an account receivable.

The agency should begin placing its hand posted records on the Statewide Budgeting and Accounting System. This system provides a subsidiary ledger at the end of each month and reduces the requirements for manual recordkeeping.

Recommendation

We recommend that the society utilize the Statewide Budgeting and Accounting System for processing accounts receivable.

Employee Accounts

Employees are permitted to charge merchandise at the Montana Historical Society. We found that several accounts had balances above \$250 and that no payments had been made for over six months. There did not appear to be any collection effort on these accounts.

Recommendation

We recommend that the society discontinue preferential treatment of employee accounts.

CASH

The Montana Historical Society has three bank accounts outside the state treasury system. Although we found unsigned applications requesting authority for these accounts, we did not find that this authority had been granted. The two Helena accounts are used as bank card clearing accounts. Bank card sales are deposited into this account and a check for the full amount of sales is later deposited with the state treasurer. Both accounts are replenished by state warrant when the service charges have reduced the balance. The Libby Dam account is a clearing account for deposits. We found several problems in the operation of these accounts.

-- The Libby Dam account is not needed and only creates unnecessary transactions. The account should be closed and deposits made directly to a treasury account.

-- None of the accounts are listed on the accounting records. The bank card accounts had a balance of \$467.92 and the Libby Dam account was overdrawn \$1.60.

-- The two bank card accounts are not reconciled or reviewed by business office employees.

-- The bank card accounts are not maintained on an imprest basis. Service charges are not accurately recorded when the account is replenished.

Recommendation

We recommend that the society:

1. Obtain authorization for all nontreasury cash accounts.
2. Close the bank account at Libby.
3. Place the cash accounts on an imprest basis and record the balances on the general ledger.
4. Reconcile the accounts each month.

Imprest Cash

The imprest cash fund at the agency is not promptly replenished. Between April and October 1978, the account carried a balance of \$1.56. The account has no purpose if it does not maintain an adequate balance.

Because the imprest cash fund did not contain adequate cash, \$8.00 was taken directly from the donations box and used to pay expenses. Neither the revenue nor expense was recorded. The amount is not material, but it indicates a significant weakness in internal control when donations are used to pay expenses without being recorded.

Recommendation

We recommend that the society:

1. Promptly replenish the imprest cash fund.
2. Discontinue using cash receipts to pay expenses.

INVESTMENTS

The Montana Historical Society owns both investments and stock. The investment consists of \$29,237 in cash deposited in the trust and legacy fund. The cash was donated in 1971. The stock was donated in 1971 and 1974 and all but ten shares are on deposit with the State Treasurer.

None of the investments are recorded on the Montana Historical Society accounting records. The cash invested in the trust and legacy account is administered by the Department of State Lands and is recorded in accounting records which record state investments. Distributions from this fund are initially made to the Department of State Lands. The department allocates earnings to the various "owners" of the fund resulting in transfer each quarter of approximately \$400 to the Montana

Historical Society. Since the Montana Historical Society owns this investment and is the recipient of interest earnings, this investment should be recorded on the society's accounting records. We discussed this matter with an official of the accounting division of the Department of Administration. He indicated that they would assist the agency in properly recording their investment.

The investment in stocks is not recorded anywhere in the state accounting system. This is a serious problem since an unrecorded investment leaves no one responsible for recording and depositing the dividends. If the agency had failed to deposit dividends during past years, no one would be aware of the investment.

At a minimum the agency should record these stocks as investments on the balance sheet at donated value. Donated value of the largest block of stock is \$13,700. We were unable to determine the donated value of the other stocks. The agency should also discuss this matter with the Board of Investments to determine if management of the stock by the board could result in larger yields.

Section 79-201, R.C.M., 1947, states that, "The State Treasurer shall be the custodian of all monies and securities of the state unless otherwise expressly provided by law..." The agency has ten shares of donated stock in its possession. This should be deposited with the State Treasurer.

Recommendation

We recommend that the society:

1. Record investments on the accounting records.
2. Deliver the donated stock certificate to the State Treasurer.

EMPLOYEE ADVANCES

The balance sheets for the general fund, federal and private revenue fund and revolving fund show expense advances to employees of \$709, \$170 and \$150 respectively. The general fund and federal and private revenue fund represent accumulated errors from prior years. Employees who have received travel advances have failed to submit travel vouchers, or coding errors did not remove the balance when the travel expense claim was processed.

Employees have not been required to submit travel expense claims to justify travel expenses. These claims should be submitted on a monthly basis and should be matched against travel advances.

During our review, we found one employee who received a \$1,000 advance on September 10, 1978. This was also the last day of employment for this employee. The employee signed a promissory note and the money was repaid in October. This transaction does not appear to be a legitimate use of state funds. Although the money was repaid, state funds were subject to unnecessary risk.

Recommendation

We recommend that the society:

1. Require employees to submit travel expense vouchers.
2. Discontinue the practice of granting advances to terminated employees.

General Ledger Maintenance

As indicated in our opinion on the financial statements, employee advances and other balance sheet accounts consist of accumulated errors. These are the result of not performing general ledger "maintenance."

The agency should review the general ledger and correct errors.

Recommendation

We recommend that the society review general ledgers on a periodic basis and correct errors.

EXPENDITURES

House Bill 145 states, "It is the intent of the legislature that funds appropriated under the act shall not be expended for the purpose of membership costs to private organizations..." During fiscal year 1977-78, the agency expended \$795 to private organizations for dues and memberships. The society receives publications and literature with these memberships and many appear to be valid expenditures in view of the society's responsibilities. Membership in the Montana Press Association (\$100) and the Northern Plains Resources Council (\$10) do not appear to comply with the provision of the appropriation. The agency should review each membership and determine if it is necessary to meet the society's responsibilities.

Recommendation

We recommend that the society comply with the provisions of legislative appropriations.

Expenditure Coding

During the year, the agency coded approximately \$19,000 in operating expenses to goods for resale. We found freight, postage, supplies and contracted services coded to this expenditure code. The goods for resale expenditure category is important in determining the gross margins on sales, and these coding errors significantly reduce the usefulness of the financial statements.

Recommendation

We recommend that the society properly code expenditures.

Restricted Expenditures

In 1971 the Montana Historical Society received an endowment of over \$40,000 and a large collection of books dealing with western history. The terms of the will specified that the principal was to remain intact, interest earnings were to be used to maintain and expand the collection, and any unused interest was to be added to the principal at the end of each year.

The agency has not maintained records to segregate receipts from this endowment or records indicating that the expenditures were in compliance with the will. It appears that some of the expenditures were not in compliance with the will, including the acquisition of a painting. No earnings have been added to principal. This activity violates the terms of the agreement under which the endowment was accepted.

Recommendation

We recommend that the society comply with the provision of endowment agreements.

Expenditure Abatements

The agency made frequent use of expenditure abatements and debits to revenue when making payments from certain funds. This has significantly distorted the revenue and expenditure figures for the donations, special projects, Libby Dam, grant clearance and agency funds. For example, the donations account collected \$25,289 during the fiscal year from various sources. Expenditures of \$16,065 were debited to revenue. At year end, the financial statements indicate revenue of \$9,224 and no expenditures.

This is a significant accounting deficiency. The agency should immediately discontinue this practice and properly record each transaction.

Recommendation

We recommend that the society discontinue recording receipts as expenditure abatements.

Contracted Services

During the year, the agency hired several individuals as independent contractors. Under this arrangement, the individuals were paid a flat hourly rate for each hour of work. Federal and state taxes were not withheld from these payments and the society did not pay employment related taxes. Job titles of individuals under contract include security guard, carpenter assistant and sales clerk.

In general, a worker is an employee rather than an independent contractor if the person for whom he works may control and direct the way he works as to when, where and how the work is to be done. There is a considerable body of case law which defines the differences between employees and workers under contract. It appears these workers may have been employees and that the society was responsible for employment related taxes. The society should discontinue the practice because of the potential liability. If future contractors are hired, the society should seek legal assistance to determine if the contracts meet the requirements of tax and employment related laws.

Recommendation

We recommend that the society seek legal assistance to determine the status of workers hired under contract.

Purchases

During the year, the agency purchases eight gross (1,152) of felt tip pens. Although this was a closeout at a significant price reduction, we question the necessity of purchasing in these quantities. This purchase provides the equivalent of over 25 felt tip pens for each employee.

Recommendation

We recommend that the society purchase supplies in quantities sufficient to meet current year's needs.

MONTANA HERITAGE FOUNDATION

The Montana Heritage Foundation is a nonprofit corporation established to assist the Montana Historical Society in acquiring art works. During fiscal year 1977-78, the agency entered into transactions with the foundation. Donations earmarked for acquiring the C. M. Russell oil painting, "When the Land Belonged to God," were received by the Montana Historical Society, deposited in the state treasury, and subsequently transferred to the foundation. The foundation was to later transfer this money to the seller.

Officials of the Montana Historical Society indicate that this was done in conjunction with an advertising campaign sponsored by the Montana Heritage Foundation. The receipts were in the name of the foundation and the Montana Historical Society merely acted as a conduit.

Certain other money earmarked for acquisition of the painting, including the donations collected by the Montana State Senate during the last legislative session, were also transferred to the foundation.

We made requests of the director during a five week period to

provide us with access to the foundation's records. Despite assurances that we would receive access to the records, we were not able to review them. We were informed that a busy schedule and out-of-town business by foundation officials prevented any meetings during the period of our review.

Although we found no evidence of improper transactions, we believe that a subsequent review should ascertain the nature of the relationship between the society and the foundation. Because our scope was limited by our inability to review foundation records, we make no recommendations.

LIBBY DAM VISITOR CENTER

The Montana Historical Society is under contract with the Corps of Engineers to operate and maintain a visitor center and interpretive program at the Libby Dam project. This is a cost reimbursable project and the agency is reimbursed each month for all allowable expenditures.

The society provides a full time curator and secretary-sales manager who work at Libby. Interpretive and sales personnel are hired on a seasonal basis. The program also employs a full time business manager who resides in Helena to maintain accounting records.

The business manager submits monthly billings to the Corps of Engineers, including copies of time cards of employees and all invoices paid. The agency is reimbursed for all direct expenses plus \$200 per month for incidental expenses. These reimbursements are prepared independent of the Statewide Budgeting and Accounting System records. As a result, the billings do not necessarily agree with the state computer generated records and it is sometimes difficult to trace these billings into the state records.

Bills submitted to the Corps of Engineers should be based upon the state accounting records. These financial reports provide an accurate record of transactions in the program. Using these records would provide assurance that the Corps of Engineers is billed for all expenses incurred. This should also significantly reduce the time required to prepare the bills.

Recommendation

We recommend that the society request reimbursements based upon state accounting records.

Sales

The visitor center operates a small merchandising department. All inventory is obtained from the Montana Historical Society. Several times each year, officials at the Libby Dam operation take inventory and pay the Helena merchandise operation for all goods sold. When payment is made, the accounting entry debits revenue at the Libby Dam program. Merchandise sales reported on the financial statements of \$3,944 are understated by at least \$3,897 due to these transactions.

Recommendation

We recommend that the society report all sales of merchandise.

Accounting for Cost Reimbursable Grants

The balance sheet for the federal and private revenue fund-Libby Dam does not report accounts receivable at year end of \$10,876. This was the amount of reimbursable costs incurred prior to June 30, 1978, but not received until August 1978. Although the state is on the modified accrual basis of accounting, where revenue is not recorded until received, generally accepted accounting principles require

accrual of this type of revenue.

Accounts receivable at June 30, 1977 were \$5,929 and the change in unrecorded receivables during the year results in an understatement of revenue by \$4,947.

Recommendation

We recommend that the society record revenue when earned in the Libby Dam account.

MUSEUM, ARCHIVE AND LIBRARY COLLECTIONS

We found that many items in the museum, archive and library collections have not been cataloged. In the museum, the curator estimates over 70% is uncataloged. In the library, many acquisitions are not cataloged. Archives has reduced its backlog; however, some recent acquisitions have not been cataloged.

Uncataloged acquisitions represent a serious deficiency in these operations. It cannot be determined if items have been lost or stolen since there are inadequate records of items being received. Periodic inventories serve no purpose since it cannot be determined what should be included in the total inventory. Uncataloged material is also not available to researchers. For example, the library received a major collection of western history books in 1971. These books are stored out of public view. The card catalog does not list these books and consequently researchers may be unaware of their existence.

Program directors at the agency said that all available staff time is devoted to cataloging. They believe that the programs are not adequately staffed to complete cataloging in the near future. Because of the importance of fully cataloging acquisitions, the agency should

seek additional staff or discontinue some current operations in order to free current staff.

Recommendation

We recommend that the society complete cataloging of acquisitions in the library, museum and archives.

INSURANCE

Paintings and artifacts at the Montana Historical Society are insured for approximately \$6.3 million. Society officials believe that the total value of the collection is approximately \$35 million. Since insurance does not cover the full value of the collection, coverage is allocated among the collection. The most recent acquisition, "When the Land Belonged to God," by C. M. Russell is insured for full market value of \$500,000. Other items are insured for considerably less than their market value.

In May 1978 a pen and ink sketch by C. M. Russell, entitled "Rodeo Steer Rider," was stolen from the museum gallery. The market value of this sketch, according to officials of the society, is \$12,000. The sketch was insured for \$500. The fine arts policy contains a \$250 deductible clause, resulting in a payment to the Montana Historical Society of \$250.

The Montana Historical Society should seek additional funds to provide for adequate insurance coverage. The present level of insurance does not provide adequate protection for the state's investment, nor does it provide for settlements large enough to purchase replacement art works for those stolen.

Recommendation

We recommend that the society increase the dollar coverage of its fine arts insurance policy.

Allocation of Insurance

The painting stolen in May was on display in the museum gallery. Its assigned value for insurance purposes was \$500. We found sketches stored in a locked vault at the historical society valued at \$1,000. Some of these are rarely displayed. Some items which are rarely displayed are valued at up to one-half of their market value, while some items on display are valued for insurance at less than 1/20th of the market value.

If insurance coverage is not adequate to cover the entire collection, the allocation of coverage should be based upon the relative risk of theft or damage. Items on public display clearly bear the highest risk. The agency should consult with the Insurance and Legal Division and with insurers to allocate coverage based upon risk.

Recommendation

We recommend that the society allocate insurance coverage based upon risk.

Library and Archives

The library and archives are not included under the fine arts policy, even though both programs possess rare and valuable manuscripts and papers. Coverage is provided under the state's general fire policy. Under this policy, the collections would not be replaced as fine art or at market value.

Recommendation

We recommend that the society review the adequacy of insurance coverage for the library and archives program.

Insurance Inventory

The agency procedures for deleting from the insurance inventory are not adequate. We found items no longer held by the society still on the insurance inventory.

Recommendation

We recommend that the society develop procedures for deleting items disposed of from the insurance inventory.

POLICY MANUAL

We believe that the Montana Historical Society would derive significant benefits from proper use of a policy manual. The agency currently does not have such a manual and this has resulted in considerable confusion and misunderstanding. The staff view of policy on many important topics was frequently very different from the management view.

The policy manual should clearly define responsibilities as well as outlining procedural guidelines for financial transactions. The manual in itself will not solve problems but a constant management review to assure compliance with the manual will detect and help solve problems in a timely manner.

Recommendation

We recommend that the society develop a policy manual that sets forth responsibilities and procedures for financial transactions.

PLANT, PROPERTY AND EQUIPMENT

The Montana Historical Society maintains listings of equipment and has conducted a physical inventory in the past year. We found the records accurate as to type of equipment and location. Many of the assets have

an assigned cost or no cost and it was not possible to determine historical cost on these assets. Because we could not determine historical costs, we do not present a statement of general fixed assets.

We believe that the agency should document historical cost or appraised value at the time of acquisition. The agency should also develop a system for permanently marking its fixed assets. Without a permanent marking system it is difficult to locate specific items.

Our comments relating to art work, antiques and other acquisitions are contained in a prior report section. The above comments relate to the business equipment and fixtures used by the agency.

The Department of Administration is developing a property accounting system which should correct the problems when implemented.

Recommendation

We recommend that the society develop procedures to improve accountability over plant, property and equipment.

HISTORIC PRESERVATION PROGRAM

Effective January 1, 1977 responsibility for administering the historic preservation program was transferred to the Montana Historical Society. This program was formerly administered by the Department of Fish and Game.

The program is under the direct supervision of the Director of the Montana Historical Society, who also serves as the State Historic Preservation Officer. During the fiscal year, the program employed an administrative officer, a historian, and a secretary. The administrative officer's position was deleted June 30, 1978. The historian is now performing the administrative duties.

The Governor's Advisory Council for Historical Sites and Antiquities is charged with providing advice, guidance and professional recommendations to the State Historic Preservation Officer. This five member board, appointed by the Governor, also reviews and approves nominations to the National Register of Historic Sites and reviews all requests for grants-in-aid before transmittal to the Department of Interior.

The primary responsibilities of the program include: annual preparation of a state historic preservation plan; administration of Section 106 of the National Historic Preservation Act of 1966, which requires federal agencies to determine the impact of their undertaking on historic sites; preparation and review of nominations for the National Register of Historic Sites; and administration of the historic preservation program. This program provides matching funds for acquisition and restoration of structures which are listed on the National Register of Historic Sites.

During the fiscal year 1977-78, administrative expenses of the program were paid equally from the general fund and a Department of Interior grant.

Organization and Administration

During our review, we found that many organizational and administrative responsibilities had not been performed. The former administrative officer had not maintained adequate files or documented his activities. We had to request subgrantees to provide copies of their files in order to perform expenditure testing. There were delays of several months in processing requests for payment and the administration of some grants was apparently ignored. Some files had not been removed from boxes since the transfer from the Department of Fish and Game.

Many of our comments in the following pages relate to the inadequacy of records and recordkeeping. With recent changes in staff, this problem may be corrected in future years. The program manager should ensure proper documentation and files, since failure to meet these standards could jeopardize the receipt of grant money allocated to Montana cities and towns.

Recommendation

We recommend that the society maintain adequate documentation and files on the historic preservation program.

Staffing

Title 36, Chapter 1, Part 61.3 of the rules and regulations of the Historic Preservation Act of 1966 requires a state professional staff of at least four employees. These employees must have education and training in the fields of history, archaeology, historical architecture and architectural history. This provision is effective October 1, 1978.

The present staff includes a historian, who also acts as administrator of the program, and a secretary. Without the required staff, the program administrator believes that Montana's participation may be discontinued. If the program is to be continued, the agency should immediately seek to hire the additional staff.

Recommendation

We recommend that the society hire the required staff for the historic preservation program, if the program is to be continued.

Matching Funds

The administration of the historic preservation program requires 50% matching funds by the administering state agency. The historical society matched federal dollars with general fund expenditures. The

matching portion represented dollars actually spent from the general fund. We believe the agency should investigate the uses of in-kind or allocated matching funds rather than relying upon actual cash expenditures as the state's matching share. This is often called a "soft" match since cash outlays are not involved. Examples include depreciation or a use allowance for buildings and equipment.

The agency should also make certain allocations to the program. Since the director also serves as the State Historic Preservation Officer, some allocation of his salary to this program should be made. This will increase the federal share without additional state expenditures. The agency should review this matter with the Office of Budget and Program Planning to ensure that any matching funds meet all state and federal requirements.

Recommendation

We recommend that the society use in-kind or allocated matching funds to the extent possible in the historic preservation program.

Conflict of Interest

The policies and procedures manual for the historic preservation program states, "A person who is a public official, officer, or member of, or who is otherwise associated with a recipient of grant funds, may not participate in an administrative decision with respect to a project or contract, if such decision can be expected to result in any benefit or remuneration." Also, "No person performing services for the grantee in connection with a project shall have a financial or other personal interest, other than his or her employment or retention by the grantee, in any contract or subcontract connected with that

project."

We found that one member of the advisory council works as a \$600 per month consultant to the program. In this capacity, he prepares nominations for the National Register of Historic Sites and reviews and approves these nominations as a member of the advisory council. He has also performed private consulting work, for pay, on projects receiving grant money. As a member of the advisory council, he also reviews grant projects.

We found no evidence that the consultant had abused this situation; however, it may represent a violation of the conflict of interest regulations governing this program. The agency should seek a legal opinion to determine if a conflict of interest does exist and take appropriate action.

Recommendation

We recommend that the society determine if a conflict of interest exists in the historic preservation program.

Distribution of Grant Funds

The policy manual requires that the states shall attempt a fairly even geographic distribution of grant funds. We were not able to document the agency's effort to comply with this provision of the regulations. Prior distributions indicate that an adequate effort has not been made. Listed below is the 1977 state apportionment request to the Department of Interior. It does not represent actual expenditures, only requested funds for the year.

<u>City</u>	<u>Amount of Request</u>	<u>Percent</u>
Helena	\$ 882,778	71.5%
Missoula	137,500	11.2
Butte	89,000	7.2
Great Falls	89,000	7.2
Kalispell	20,000	1.6
Fort Benton	11,500	1.0
Wibaux	<u>4,000</u>	<u>.3</u>
	\$ 1,233,778	100.0%

The actual distribution of grant funds is dependent upon many factors, including the ability to provide matching funds and the listing of structures on the National Register of Historic Sites.

We believe that the agency should develop a program to inform cities and counties of the availability of these grants and the requirements for obtaining them. The agency should also document its effort to obtain an even geographical distribution.

Recommendation

We recommend that the society develop and document a program to inform cities and counties of the availability of historic preservation grant funds.

Consultants

The historic preservation program employed four consultants during the 1977-78 fiscal year. The contract for one consultant required that certain minimum work be performed, including preparation of four nominations to the National Register of Historic Sites and listing of 70 sites for the official state inventory of historic architectural properties. We found no evidence that this work was done. An official of the historic preservation program also indicated that the work was not done. The consultant received \$2800 during the year.

The agency should develop standards to monitor compliance with the contract by consultants. Consultants who have not complied with contract terms should be notified promptly. The agency should seek reimbursement or enforce the terms of the contract.

One other consultant, whose contract expired June 30, 1978, continues to receive payments. This consultant has complied with the terms of the prior contract and continues to perform work for the agency. The agency should negotiate a current contract with this consultant.

Recommendation

We recommend that the agency:

1. Develop procedures requiring consultants to comply with contract terms.
2. Maintain current contracts with consultants.

Financial Records

Federal management circulars set forth accounting requirements for recipients of federal grants. Our review disclosed several exceptions. The state computer-generated accounting records provide no information as to grant activity. The federal and private grant clearance fund lists revenue of \$14,328. Actually, this is a net figure representing receipts of \$119,060 and disbursements of \$104,732. Since the state is directly involved in the review and approval of grants, this account should reflect the full amount of revenue received and the associated expenditures. Currently, revenue and expenditures are understated by \$104,732.

The file card system presently in use is not adequate. The agency should place its accounting records for grants on the state computer system.

Recommendation

We recommend that the society utilize the state computer accounting system for grant accounting.

Delay in Transmitting Funds

Federal Management Circular 74-7 provides procedures for minimizing the time between transfer of funds from the treasury and disbursement by the grantee. We found significant delays in this process. One request for reimbursement from a city was received in July 1977, transmitted to the Department of Interior in December, and the city was reimbursed in March.

Recommendation

We recommend that the society promptly process requests for reimbursements.

Review of Subgrantee Claims

The society is responsible for the initial review and approval of subgrantee claims for payment. The agency does not perform an adequate review of subgrantee costs nor is the limited review documented. We found one claim with a mathematical error. Although the amount was small, it indicates no review was made. Another claim reimbursed a city \$85 too much. The claim was not compared with the request for reimbursement from the city.

Recommendation

We recommend that the society perform an audit of subgrantee requests for reimbursement and that these audits be documented.

Completion Reports

The Historic Preservation Grants-in-aid Policies and Procedures Manual requires that completion reports be submitted within 90 days

following completion of a project. We found no evidence that these reports were submitted for completed projects.

Recommendation

We recommend that the society submit completion reports for all completed projects.

Costs Outside the Project Period

We found that subgrantees incurred costs before and after the specified project period. Subgrantees apparently were unaware of the grant requirements. In one case, it appears that the former program manager did not communicate with a subgrantee for several years. The project expired in May of 1977. During the fiscal year 1977-78, the grantee requested reimbursement. A trip to Washington, D.C. by the historian resulted in an exception to grant conditions and permitted retroactive funding of the project.

There was an apparent lack of communication between the state and subgrantees. This has lead to several situations which have jeopardized the receipt of funds by subgrantees. It has also imposed a burden on subgrantees due to significant delays in providing matching funds. The agency should maintain continued correspondence with the subgrantees to ensure that grant conditions are complied with.

Recommendation

We recommend that the society maintain continued correspondence with subgrantees.

Grantee Assurances

Certain assurances required by OMB Circulars No. A-95, A-102, and FMC 74-4 relating to the application acceptance and use of federal funds are not contained in the grant files. These assurances include compliance

with the Civil Rights Act of 1964, compliance with the Hatch Act, and compliance with the requirements of the provisions of the Uniform Relocation Assistance and Real Property Acquisitions Act. A complete list of required assurances is included in the grants management manual. So as not to jeopardize the receipt of federal funds, the agency should ensure that grant files contain this information and that subgrantees are aware of the requirements.

Recommendation

We recommend that the society inform subgrantees of all grant requirements.

PRIOR AUDIT RECOMMENDATIONS

The last audit of the Montana Historical Society was for the fiscal year ended June 30, 1976. Discussed below are audit recommendations with which the agency has not complied:

- Recommendations concerning incorporating the outside bank accounts into the Statewide Budgeting and Accounting System, recording service charges on charge cards and requesting authorizations for the outside bank account at Libby. The agency agreed with these recommendations.
- Recommendations concerning control of receipts from audio-phone and control over unused checks. The agency concurred with the recommendation regarding safeguarding unused checks and disagreed with the recommendation to safeguard audio-phone receipts.
- Recommendations relating to determination of inventory at year end and placing inventory on the state accounting system. The agency concurred with these recommendations.
- Recommendation to deliver all securities to the custody of the State Treasurer. The agency concurred with the recommendation.
- Recommendation to centralize the accounts receivable and cash receipts function. The agency concurred with this recommendation.

-- Recommendation regarding establishing a deferred income account for magazine subscriptions. The agency concurred with this recommendation; however, they believed implementation would be difficult.

-- Recommendation regarding internal control over payroll and the delivery of warrants. The agency concurred with this recommendation.

Other recommendations in that report were complied with in full or to the extent possible by the agency. A prior audit of the historic preservation program was made when the program was administered by a different state agency.

FINAL COMMENTS

We have reviewed this report with the director of the Montana Historical Society and his staff. The full text of their written response is included in this report.

We wish to express our appreciation to the director and his staff for their cooperation and assistance during the audit.

FINANCIAL STATEMENTS



STATE OF MONTANA

MONTANA HISTORICAL SOCIETY

BALANCE SHEET - ALL FUNDS
JUNE 30, 1978

	General Fund	Earmarked Revenue Funds	Federal and Private Donations	Special Projects
<u>ASSETS:</u>				
Cash Change Funds	\$ 430	\$ -	\$ -	\$ -
Imprest Cash Fund	75	-	-	-
Cash on Hand at Year End	-	-	-	17
Cash in Treasury	26 237	12	13 084	2 560
<u>Accounts Receivable:</u>				
Receipts	-	-	-	128
Dishonored Checks	-	-	-	-
Deferred	-	-	-	(1 650)
Expenditure Abatements	1 407	-	-	-
Inter-Entity Loans Receivable	-	-	16 924	-
Expense Advances - Employees	709	-	-	-
Other Advances	100	-	-	-
Other Assets				
<u>TOTAL ASSETS</u>	<u>\$ 28,958</u>	<u>\$ 12</u>	<u>\$ 30,008</u>	<u>\$ 1,055</u>
<u>LIABILITIES AND FUND BALANCE:</u>				
Accrued Support Expenditures	\$ 26,237	\$ -	\$ -	\$ -
Accounts Payable	-	-	-	-
Inter-Entity Loans Payable	-	77 000	-	17 824
Accountability for Cash Funds	505	-	-	-
Reserve for Accounts Receivable	1 407	-	-	(1 650)
Accountability for Advances	809	-	-	-
Fund Balance (Deficit)	-	(76 988)	30 008	(15 119)
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$ 28,958</u>	<u>\$ 12</u>	<u>\$ 30,008</u>	<u>\$ 1,055</u>

The accompanying notes are an integral part of these financial statements.

Revenue Funds		Grant	Insurance		
Historic	Libby	Clearance	Clearance	Revolving	Agency
Sites	Dam	Fund	Fund	Fund	Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	587	-	-	3 888	313
1 589	1 303	14 328	5 578	2 525	6 562
-	-	-	-	15 236	81
-	-	-	-	241	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	4 900
-	170	-	-	150	-
-	-	-	-	-	-
-	-	-	-	-	950
\$ 1,589	\$ 2,060	\$ 14,328	\$ 5,578	\$ 22,040	\$ 12,806

\$ 2,039	\$ 816	\$ -	\$ -	\$ 35,881	\$ -
-	-	-	-	21	1 035
-	4 000	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	17 884	-	-	-	-
(450)	(20 640)	14 328	5 578	(13 862)	11 771
\$ 1,589	\$ 2,060	\$ 14,328	\$ 5,578	\$ 22,040	\$ 12,806

STATE OF MONTANA

MONTANA HISTORICAL SOCIETY

STATEMENT OF APPROPRIATIONS COMPARED TO EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 1978

	<u>General</u> <u>Fund</u>	<u>Earmarked</u> <u>Revenue</u> <u>Fund</u>	<u>Federal and Private</u> <u>Donations</u>	<u>Special</u> <u>Projects</u>
Appropriations	\$ 396,921	\$ 315,000	\$ 150,000	\$ -
Budget Amendment	-	-	-	-
<u>Total Available</u>	\$ 396,921	\$ 315,000	\$ 150,000	\$ -
Expenditures	\$ 375,288	\$ 77,000	\$ 429	\$ -
<u>UNEXPENDED BALANCE</u>	\$ 21,633	\$ 238,000	\$ 149,571	\$ -

The accompanying notes are an integral part of these financial statements.

Revenue Funds		Grant Clearance Fund	Insurance Clearance Fund	Revolving Fund	Agency Fund
Historic Sites	Libby Dam				
\$ 25,000	\$ -	\$ -	\$ -	\$ 438,813	\$ -
9 113	84 415	-	-	-	-
\$ 34,113	\$ 84,415	\$ -	\$ -	\$ 438,813	\$ -
\$ 25,963	\$ 58,749	\$ -	\$ -	\$ 331,504	\$ 54,684
\$ 8,150	\$ 25,666	\$ -	\$ -	\$ 107,309	\$ -

STATE OF MONTANA

MONTANA HISTORICAL SOCIETY

STATEMENT OF CHANGES IN FUND BALANCES - ALL FUNDS
FISCAL YEAR ENDED JUNE 30, 1978

	<u>General Fund</u>	<u>Earmarked Revenue Funds</u>	<u>Federal and Private Donations</u>	<u>Special Projects</u>
<u>FUND BALANCE JULY 1, 1977</u>	\$ -	\$ (538)	\$ 21,320	\$ (19,130)
<u>ADDITIONS</u>				
Appropriations	396 921	-	-	-
Revenue and Income	-	-	9 224	4 611
Prior Year Adjustments	<u>-</u>	<u>550</u>	<u>-</u>	<u>-</u>
<u>Beginning Balance Plus Additions</u>	<u>\$ 396,921</u>	<u>\$ 12</u>	<u>\$ 30,544</u>	<u>\$ (14,519)</u>
<u>DEDUCTIONS</u>				
Expenditures	\$ 375,288	\$ 77,000	\$ 429	\$ -
Reverted Appropriations	21 633	-	-	-
Prior Year Adjustments	-	-	107	600
Stale Date Warrants Written Off	-	-	-	-
Other Adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total Deductions</u>	<u>\$ 396,921</u>	<u>\$ 77,000</u>	<u>\$ 536</u>	<u>\$ 600</u>
<u>FUND BALANCE JUNE 30, 1978</u>	<u>\$ -</u>	<u>\$ (76,988)</u>	<u>\$ 30,008</u>	<u>\$ (15,119)</u>

The accompanying notes are an integral part of these financial statements.

Revenue Funds		Grant	Insurance		
Historic Sites	Libby Dam	Clearance Fund	Clearance Fund	Revolving Fund	Agency Fund
\$ -	\$ (22,665)	\$ -	\$ 5,578	\$ (33,130)	\$ 5,617
-	-	-	-	-	-
25 513	67 229	14 328	-	357 315	59 338
-	-	-	-	-	1 500
\$ 25,513	\$ 44,564	\$ 14,328	\$ 5,578	\$ 324,185	\$ 66,455
\$ 25,963	\$ 58,749	\$ -	\$ -	\$ 331,504	\$ 54,684
-	-	-	-	-	-
-	6 455	-	-	6 493	-
-	-	-	-	38	-
-	-	-	-	12	-
\$ 25,963	\$ 65,204	\$ -	\$ -	\$ 338,047	\$ 54,684
\$ (450)	\$ (20,640)	\$ 14,328	\$ 5,578	\$ (13,862)	\$ 11,771

STATE OF MONTANA

MONTANA HISTORICAL SOCIETY

STATEMENT OF REVENUE AND INCOME - ALL FUNDS
FISCAL YEAR ENDED JUNE 30, 1978

	<u>General Fund</u>		<u>Earmarked Revenue</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>
<u>Sale of Merchandise:</u>				
Concession Income	\$ -	\$ -	\$ -	\$ -
Consigned Sales	-	-	-	-
Magazines	-	-	-	-
<u>Gifts, Grants and Donations:</u>				
Bequests	-	-	-	-
Donations	-	-	-	-
<u>Transfers</u>	-	-	15 000	-
<u>Federal Assistance:</u>				
Department of Interior - Historic Sites	-	-	-	-
Corps of Engineers - Libby Dam	-	-	-	-
<u>TOTALS</u>	\$ -	\$ -	\$ 15,000	\$ -

The accompanying notes are an integral part of these financial statements.

Federal and Private Revenue Funds							
Donations		Special Projects		Historic Sites		Libby Dam	
Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual
\$ -	\$ -	\$ -	\$ 4,611	\$ -	\$ -	\$ -	\$ 3,944
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	60
10 000	380	-	-	-	-	-	-
400 000	7 482	6 000	-	-	-	-	-
-	1 362	-	-	-	963	-	-
-	-	-	-	25 000	24 550	-	-
-	-	-	-	-	-	100 000	63 225
\$ 410,000	\$ 9,224	\$ 6,000	\$ 4,611	\$ 25,000	\$ 25,513	\$ 100,000	\$ 67,229

STATE OF MONTANA

MONTANA HISTORICAL SOCIETY

STATEMENT OF REVENUE AND INCOME - ALL FUNDS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 1978

	<u>Grant Clearance</u>		<u>Revolving Fund</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>
<u>Sale of Merchandise:</u>				
Concession Income	\$ -	\$ -	\$ 340,000	\$ 246,031
Consigned Sales	-	-	-	-
Magazines (Estimate included in Concession Income)	-	-	-	111 284
<u>Gifts, Grants and Donations:</u>				
Bequests	-	-	-	-
Donations	-	-	-	-
<u>Transfers</u>	-	-	-	-
<u>Federal Assistance:</u>				
Department of Interior - Historic Sites	325 000	14 328	-	-
Corps of Engineers - Libby Dam	-	-	-	-
<u>TOTALS</u>	<u>\$ 325,000</u>	<u>\$ 14,328</u>	<u>\$ 340,000</u>	<u>\$ 357,315</u>

The accompanying notes are an integral part of these financial statements.

Agency Fund	
<u>Estimated</u>	<u>Actual</u>
\$ -	\$ 35,466
20 000	23 872
-	-
-	-
-	-
-	-
-	-
-	-
<u>-</u>	<u>-</u>
\$ 20,000	\$ 59,338
<u><u> </u></u>	<u><u> </u></u>

STATE OF MONTANA

MONTANA HISTORICAL SOCIETY

STATEMENT OF EXPENDITURES BY OBJECT
FISCAL YEAR ENDED JUNE 30, 1978

	Admini- stration	Library	Museum	Program Magazine
<u>Personal Services:</u>				
Salaries	\$ 60,606	\$ 69,794	\$ 69,404	\$ 42,399
Hourly Wages	-	-	18 241	4 999
Employee Benefits	8 075	9 857	12 530	6 697
<u>Total Personal Services</u>	<u>\$ 68,681</u>	<u>\$ 79,651</u>	<u>\$ 100,175</u>	<u>\$ 54,095</u>
<u>Operating Expenses:</u>				
Contracted Services	\$ 15,188	\$ 9,576	\$ 2,166	\$ 1,365
Supplies and Materials	1 359	1 943	7 527	407
Communications	2 204	1 621	3 802	666
Travel	2 276	1 871	2 528	71
Rent	472	244	5 010	88
Utilities	-	-	14	-
Repair and Maintenance	225	844	49	224
Other Expenses	440	1 169	78 702	35
Goods Purchased for Resale	-	-	-	80 601
<u>Total Operating Expenses</u>	<u>\$ 22,164</u>	<u>\$ 17,268</u>	<u>\$ 99,798</u>	<u>\$ 83,457</u>
Equipment	\$ 8,322	\$ 4,494	\$ 972	\$ -
Transfers	-	-	-	-
<u>TOTAL EXPENSES</u>	<u>\$ 99,167</u>	<u>\$ 101,413</u>	<u>\$ 200,945</u>	<u>\$ 137,552</u>

The accompanying notes are an integral part of these financial statements.

Merchandise	Historic Sites	Archives	Total All Programs
\$ 61,492	\$ 25,845	\$ 68,513	\$ 398,053
12 133	2 254	-	37 627
10 724	3 925	10 475	62 283
\$ 84,349	\$ 32,024	\$ 78,988	\$ 497,963
\$ 724	\$ 13,163	\$ 190	\$ 42,372
247	339	964	12 786
4 752	1 613	1 253	15 911
33	2 868	323	9 970
196	204	215	6 429
-	1	-	15
240	84	-	1 666
1 187	-	74	81 607
149 486	-	-	230 087
\$ 156,865	\$ 18,272	\$ 3,019	\$ 400,843
\$ 6,872	\$ -	\$ 3,701	\$ 24,361
550	-	-	550
\$ 248,636	\$ 50,296	\$ 85,708	\$ 923,717

MONTANA HISTORICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preceding financial statements were prepared from the State-wide Budgeting and Accounting System. The financial statements, except for the revolving fund, were prepared on the modified accrual basis of accounting. Modified accrual is defined as that method of accounting in which expenditures are recorded on the basis of valid obligations and revenues are recorded when received in cash.

The statements for the revolving fund are prepared on the full accrual basis in that accounts receivable at year end have been reflected as revenue during the year. Net changes in inventory and liabilities for deferred subscriptions are not recorded and their effect on income and expense is not reflected in the statements.

Inventories of office supplies are expensed at the time of purchase.

2. RETIREMENT PLAN

Employees of the agency are covered by the Public Employees' Retirement System. The state contributes 5.95 percent of an employee's gross wages. Employees contribute 6 percent of gross wages. The agency incurred pension costs of \$24,710 during fiscal year 1977-78. The state's policy is to fund accrued pension costs.

3. VACATION AND SICK PAY

Liabilities incurred because of employees' unused vacation and sick pay are not recorded. The related expenditures are recorded when paid. Permanent employees are allowed to accumulate and carry over into a new calendar year a maximum of two times their annual accumulation of vacation. Upon termination, qualifying permanent employees having unused accumulated vacation and sick leave receive payment for vacation on a 100 percent basis and sick leave on a 25 percent basis. The amount of the liability associated with unused, accumulated vacation and sick leave at June 30, 1978 is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates.

4. CONTINGENT LIABILITIES

The Montana Historical Society may be subject to future litigation for representations made under the historic preservation grant-in-aid program and for actions taken under Section 106 of the National Historic Preservation Act of 1966. The amount of future liability, if any, is not determinable.

Anita Miller vs. Montana Historical Society resulted in a full and final settlement in September, 1978 for \$1,347.

The Montana Historical Society may be liable for payments for merchandise sold on consignment. The eventual liability for payment, if any, is not determinable.

5. ACCOUNTS RECEIVABLE

The accounts receivable receipts balance in the revolving fund is presented net of amounts transferred to the Department of Revenue for

collection. The department is acting as collection agent for accounts receivable of \$3,457.

6. INVESTMENTS

Donated investments consist of the following:

Cash on deposit in Trust and Legacy Fund	\$29,237
Portland General Electric Common Stock	800 shares
The Saint Paul Company Common Stock	100 shares
Proctor and Gamble, Inc. Common Stock	10 shares

None of the investments are recorded on the financial records.

Donated value of the 800 shares of Portland General Electric common stock is \$13,700. Donated value of the remaining stock was not determined. Market value of the stock at June 30, 1978 was \$19,333.

7. CONTRACTS

On April 29, 1977 the Montana Historical Society entered into an agreement with the Montana Club to purchase the C. M. Russell painting, "When the Land Belonged to God." Purchase price was \$450,000. At June 30, 1978, the balance due on this contract was \$250,000, payable on October 1, 1978. The Montana Heritage Foundation paid \$6,250 directly to the Montana Club, leaving a balance due of \$243,750.

House Bill 826 appropriated \$295,000 to the Montana Historical Society from coal tax revenue to acquire this painting. Cash was not available in this fund during the fiscal year, and a \$77,000 payment was made using an inter-entity loan from the general fund. The October 1978 payment of \$218,000 was also financed using an inter-entity loan.

AGENCY REPLY



MONTANA HISTORICAL SOCIETY

225 NORTH ROBERTS STREET • (406) 449 2694 • HELENA, MONTANA 59601

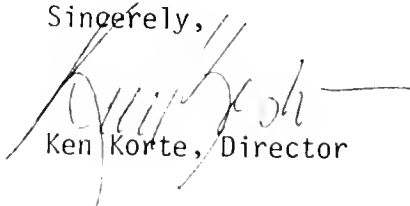
November 16, 1978

Mr. Morris L. Brusett
Legislative Auditor
Capitol Station
Helena, Montana 59601

Dear Mr. Brusett:

The administration of the Montana Historical Society submits the following response to the audit performed by the firm of Hanto, Berres and Romo under the direction of Mr. David Sather. Explanation is provided on each recommendation included in this report with documentation attached when needed.

Sincerely,



Ken Korte, Director

1. pg.6 We recommend that the society develop procedures to properly account for enterprise funds.

The agency concurs and realizes the need for adjustments to account reporting procedures. Currently, the agency maintains subsidiary records to augment information supplied by the SBAS system. The two major areas of concern are inventory control and deferred income reporting. The inventory system was revised in the last fiscal year and a new system will be implemented in December 1978 to provide deferred income information. We have discussed the problems of converting to a full accrual system with the Legislative Auditor's office in the past fiscal year and to date there is no solution other than agency maintained records which will provide the detail required.

2. pg. 7 We recommend that the society discontinue preparation of sales invoices and abstracts.

The agency concurs. The invoice - abstract system provides control on counter sales. If the invoice is prepared, information is provided for individual sales and returns, sales and revenue analysis, error control and cash and inventory controls. The agency has established an identification coding system for some items and when adequate equipment can be purchased the code system will eliminate the need for invoices and abstracts as all information can be consolidated into a cash register.

3-1. pg. 9 We recommend that the society discontinue maintaining perpetual inventory records.

The agency concurs.

3-2. pg. 9 We recommend that the society take a physical inventory at the end of each fiscal year.

The agency concurs. A physical inventory is currently taken at the end of each calendar year, but will also be taken at the end of each fiscal year.

4. pg. 10 We recommend that the society review mail order sales and discontinue unprofitable operations.

The agency concurs.

5. pg. 10 We recommend that the society centralize the responsibility for ordering and pricing decisions.

The agency concurs.

6. pg. 11 We recommend that the society compute the liability for deferred subscription income and report this information on the financial statements.

The agency concurs. This information will be available in December 1978.

7-1. pg. 13 We recommend that the society actively solicit advertising.

The agency concurs.

7-2. pg. 13 We recommend that the society update the advertising rate card.

The agency concurs.

7-3. pg. 13 We recommend that the society review the standards of acceptable advertising.

The agency concurs.

8-1. pg. 15 We recommend that the society seek legal assistance to determine the status of copyright protection over reproduction of art works.

The agency concurs. The agency is standardizing royalty agreements. Because of the complexity of the law and the difficulty in locating the original contracts, the agency cannot submit new agreements until existing contracts have expired.

8-2. pg. 15 We recommend that the society develop procedures to collect all royalties and reproduction fees.

The agency concurs.

9. pg. 16 We recommend that the Society centralize the initial receipt of cash.

The agency concurs.

10. pg. 16 We recommend that the society provide for a separation of duties for employees handling cash.

The agency concurs.

11-1. pg. 17 We recommend that the society restrictively endorse checks upon receipt.

The agency concurs.

11-2. pg. 17 We recommend that the society promptly deposit receipts.

The agency concurs.

12. pg. 18 We recommend that the society properly utilize the cash register to provide control over cash receipts.

The agency concurs.

13. pg. 19 We recommend that the society centralize the accounts receivable and billing functions.

Accounts receivable and billing for the merchandise and publications programs are centralized. The agency will eliminate all credit services in the

Library and Archives and operate these programs on a cash basis.

14-1. pg. 20 We recommend that the society require credit checks before permitting customers to charge merchandise.

The agency concurs.

14-2. pg. 20 We recommend that the society develop procedures to assure prompt collection of accounts.

The agency concurs.

15. pg. 20 We recommend that the society utilize a suspense account.

The agency concurs.

16. pg. 21 We recommend that the society utilize the Statewide Budgeting and Accounting System for processing accounts receivable.

The agency concurs.

17. pg. 21 We recommend that the society discontinue preferential treatment of employee accounts.

The agency concurs.

18-1. pg. 22 We recommend that the society obtain authorization for all nontreasury cash accounts.

The agency concurs.

18-2. pg. 22 We recommend that the society close the bank account at Libby.

The agency concurs.

18-3. pg. 22 We recommend that the society place the cash accounts on an imprest basis and record the balances on the general ledger.

The agency concurs.

18-4. pg. 22 We recommend that the society reconcile the accounts each month.

The agency concurs.

19-1. pg. 23 We recommend that the society promptly replenish the imprest cash fund.

The agency concurs.

19-2. pg. 23 We recommend that the society discontinue using cash receipts to pay expenses.

The agency concurs.

20-1. pg. 24 We recommend that the society record investments on the accounting records.

The agency concurs.

20-2. pg. 24 We recommend that the society deliver the donated stock certificates to the State Treasurer.

The agency concurs.

21-1. pg. 25 We recommend that the society require employees to submit travel expense vouchers.

The agency concurs. Employees have been provided with policy and guidelines for travel. They are also notified of outstanding advances. In the past some of the advances appearing on SBAS have been investigated and found to be there in error. With the help of the Accounting Division, the agency will continue to attempt to have these errors corrected. See attachment B

21-2. pg. 25 We recommend that the society discontinue the practice of granting advances to terminated employees.

The agency concurs.

22. pg. 26 We recommend that the society review general ledgers on a periodic basis and correct errors.

The agency concurs.

23. pg. 26 We recommend that the society comply with the provisions of legislative appropriations.

The agency concurs.

24. pg. 27 We recommend that the society properly code expenditures.

The agency concurs. This coding adjustment references the Revolving Fund and was made with the prior approval of the Office of Budget and Program Planning.

25. pg. 27 We recommend that the society comply with the provisions of endowment agreements.

The agency concurs. As is noted in this report, this estate donation was received in 1971 with the stipulation that this collection on cattleman's history be expanded and that the principal remain intact.

During fiscal year 1974 and 1975, no detail on revenues and expenditures was maintained relative to this fund. During fiscal year 1976 the agency kept subsidiary ledgers and attempted to reconstruct the period where there was no segregation. Also, investment earnings were investigated and identified with proper estate and fund. Two major projects were initiated and completed that were specifically intended to expand Cattleman's History per the provisions of this estate. Both of these projects were Library-Archives functions, one involving the processing, preserving and organizing of a large cattleman's collection which involved the contracting of a professional archivist. The other project was the publication of a manuscript history of Montana which dealt with the history of the cattleman's frontier. The agency traced deposits of \$11,408.44 to this account over the duration of this donation. The processing of the cattleman's collection expended \$9,660.00 of the fund and the balance was allocated to the manuscript history. The agency will comply with the provisions of endowment agreements and will transfer agency records to the SBAS system.

26. pg. 28 We recommend that the society discontinue recording receipts as expenditure abatements.

The agency concurs.

27. pg. 28 We recommend that the society seek legal assistance to determine the status of workers hired under contract.

The agency concurs.

28. pg. 29 We recommend that the society purchase supplies in quantities sufficient to meet current year's needs.

The agency concurs.

29-30. Montana Heritage Foundation.

The Director did attempt to reach Foundation officers by phone on several occasions. Since the Director was unable to contact the officers he could not assure access to the Foundation's records.

29. pg. 31 We recommend that the society request reimbursements based upon state accounting records.

The agency concurs, however, delay in receipt of state accounting records precludes their utilization at this time. Rapid reimbursement from the U. S. Army Corps of Engineers is required.

30. pg. 31 We recommend that the society report all sales of merchandise.

The agency concurs. A clearing account was established on July 1, 1978 to expedite these transactions.

31. pg. 32 We recommend that the society record revenue when earned in the Libby Dam account.

Agency concurs.

32. pg. 33 We recommend that the society complete cataloging of acquisitions in the library, museum and archives.

While the staff of the Archives, Library and Museum would concur that more work needs to be done in cataloguing collections in our possession, the report's statement that "It cannot be determined if items have been lost or stolen since there is no record of the item being received," is in error. All of these programs keep accession records which provide donor information and descriptions of the materials. This is standard procedure and provides more than adequate documentation concerning collections.

Cataloguing is dealt with by the program's staff as intensively as possible. Progress is being made but backlogs of materials will frustrate any attempt to remain current with the flow of acquisitions. The programs concur with the recommendation that additional staff be hired to accelerate cataloguing. The alternative recommendation that services be cut to increase cataloguing denies many of the reasons for the Society's existence. We must continue to pursue acquisitions, to provide reference services, and to be involved in other public uses of our facilities and materials.

33. pg. 34 We recommend that the society increase dollar coverage of its fine arts insurance policy.

The agency concurs. The agency has approached the Legislature and asked for increased dollar coverage for collections.

34. pg. 34 We recommend that the society allocate insurance coverage based upon risk.

The agency concurs. Reappraisals of high risk items are being updated. Insurance coverage is being allocated on a high risk basis.

35. pg. 34 We recommend that the society review the adequacy of insurance coverage for the library and archives program.

The Archives and Library concur with the recommendation to increase insurance coverage for library and archives collections. However, it must be remembered that such increased insurance coverage would require a very thorough appraisal of all materials held by these programs. This would be a very expensive and time consuming procedure and would be close to impossible to achieve without vastly increased appropriations for the purposes of appraisal and insurance.

36. pg. 35 We recommend that the society develop procedures for deleting items disposed of from the insurance inventory.

The agency concurs.

37. pg. 35 We recommend that the society develop a policy manual that sets forth responsibilities and procedures for financial transactions.

The agency concurs. The Historical Society Board, management and staff began preparation of a policy manual in February 1978. A final draft is near completion and ready for publication and usage.

38. pg. 36 We recommend that the society develop procedures to improve

accountability over plant, property and equipment.

The agency does not concur. A complete physical inventory is maintained in the agency, equipment is identified by cost, description and location. Costs on articles purchased before 1965 are difficult to determine, but efforts were made to do so. Items with serial numbers are recorded by number and description. Items without numbers are accurately described. A straight line depreciation method is used to determine current value and salvage value. Inventory records reflect description, location, purchase date and price, purchase source and disposition of equipment. This system is adequate until the State system of accounting is adapted to handle inventory.

39. pg. 38 We recommend that the society maintain adequate documentation and files on the historic preservation program.

The agency concurs.

40. pg. 38 We recommend that the society hire the required staff for the historic preservation program, if the program is to be continued.

The agency has complied with federal regulations with four professional staff positions. Presently staff consists of professionally qualified Historian, effective November 14, 1977, Archaeologist, effective October 30, 1978, and Architectural Historian, effective January 2, 1979. The agency is reviewing applications for Historical Architect.

41. pg. 39 We recommend that the society use in-kind or allocated matching funds to the extent possible in the Historic Preservation Program.

The agency concurs.

42. pg. 40 We recommend that the society determine if a conflict exists.

The agency concurs. The conflict has been discussed with the individual. The consultantship of Historic Architect now filled by this individual will be canceled as soon as a full-time professional is hired. As long as the individual serves on the Governor's Advisory Council, he will be excluded from voting on any nomination to the National Register of Historic Places or on any grant application with which he has had any involvement.

43. pg. 41 We recommend that the Society develop and document a program to inform cities and counties of the availability of historic preservation grant funds.

The agency concurs. When the Department of Fish and Game administered the program, there was an opinion that private individuals were not eligible to receive grants-in-aid. Grants were awarded only to cities and counties. As Helena was able to match the 50% grant with Community Development Block Grants, that city applied for, and received more funding.

This agency requested an opinion from the Attorney General on the exclusion of private individuals from funding. The Attorney General's opinion was

that private individuals are eligible.

Our FY79 work program and grant distribution will meet project commitments made by the office in the past, but which were never funded. The Society cannot correct all problems associated with equal distribution until FY80.

There are criteria for funding other than geographical that also must be satisfied.

44-1. pg. 42 We recommend that the agency develop procedures requiring consultants to comply with contract terms.

The agency concurs.

44-2 pg. 42 We recommend that the agency maintain current contracts with consultants.

The agency concurs.

45. pg. 43 We recommend that the society utilize the state computer accounting system for grant accounting.

The agency concurs.

46. pg. 43 We recommend that the society promptly process requests for reimbursement.

The agency concurs. The requests for reimbursement are processed within two weeks. Back logs exist, which are associated with deficiencies in the original grant application.

47. pg. 43 We recommend that the Society perform an audit of sub-grantee requests for reimbursement and that these audits be documented.

The agency concurs.

48. pg. 44 We recommend that the Society submit completion reports for all completed projects.

The agency concurs.

49. pg. 44 We recommend that the Society maintain continued correspondence with sub-grantees.

The agency concurs.

50. pg. 45 We recommend that the Society inform sub-grantees of all grant requirement.

The agency concurs.

PRIOR AUDIT RECOMMENDATIONS

- Recommendations concerning incorporating the outside bank accounts into the Statewide Budgeting and Accounting System, recording service charges on charge cards and requesting authorizations for the outside bank account at Libby. The agency agreed with these recommendations.

It should be noted that in the prior audit report we only partially concurred with these recommendations. The opinion stated that "clearing accounts for credit cards bearing interest that cannot be handled by the State Treasurer's Office. It was agreed between the Montana Historical Society's accounting division and the State Treasurer's office that these self-balancing clearing accounts would eliminate much paper work."

Also, we requested and received authorization for the outside bank on May 4, 1977 per attached copy. It is assumed that we can establish these accounts on an imprest basis and this will be investigated.

- Recommendations concerning control of receipts from audio-phone and control over unused checks. The agency concurred with the recommendation regarding safeguarding unused checks and disagreed with the recommendation to safeguard audio-phone receipts.

Because of the requirement for two signatures on all checks involving Historical Society accounts, we have not locked up unused checks. These checks are pre-numbered, can only be signed by the Director, Business Manager or Executive Secretary, and only for the credit card clearing account.

- Recommendations relating to determination of inventory at year end and placing inventory on the state accounting system. The agency concurred with these recommendations.

The difficulty in finding staff time to take a physical inventory because of extended operating hours and tourist season sales was expressed in the prior audit opinion. The desire to rely on the perpetual inventory system was mentioned, but was not to the point of completion we had hoped for by fiscal year end.

--Recommendation to deliver all securities to the custody of the State Treasurer. The agency concurred with the recommendation.

It was business office oversight that 10 shares of stock at par of \$35.00 was not delivered to the State Treasurer. This will be done immediately.

--Recommendation to centralize the accounts receivable and cash receipts function. The agency concurred with this recommendation.

As mentioned in the prior audit, there has been difficulty in centralizing these functions completely. Merchandise and Publications were centralized in the accounting office but other accounts were not put on central records. The amount of the other credits was limited as much as possible.

